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ECONOMIC TRENDS

1987 MID YEAR REVIEW

This issue of Economic Trends provides an overview of the economic situation in Prince Edward Island based on preliminary information for the first half of 1987. The reader should bear in mind that while this information is subject to revision, it does provide sufficient data to gain general insights into the economy.

1. National Outlook

Canada's economic performance during the first half of 1987 surprised most forecasters by its strength. Canada's Gross Domestic Product in constant 1981 dollars increased at an annualized rate of 6.1 per cent during the first half of 1987 compared to overall growth of 3.3 per cent in 1986. Employment gains mirrored the strong economic growth as seasonally adjusted employment increased by 225,000 between January and June 1987. In sharp contrast to this, employment increased by only 31,000 over this same period in 1986.

Investment spending was the major driving force behind the strong growth in the first half of 1987. Business investment in fixed capital increased at an extraordinary rate of 14.6 per cent per year and residential investment expenditures increased by 19.2 per cent. Housing starts reached a seasonally adjusted level of 250,000 units during the first six months of 1987 compared to 200,000 units in all of 1986. Business investment in new plant and equipment also realized significant growth as it increased at an annualized rate of 12.0 per cent in the first half of 1987.

Consumer spending continued to buoy economic growth as consumer expenditures on goods and services in constant 1981 dollars increased by 5.4 per cent in the first half of 1987. Consumer expenditures on durable goods increased by 15.4 per cent during first half 1987. Consumers continued to reduce their rate of savings in order to finance their extra spending. The savings rate dipped to 8.8 per cent during the second quarter of 1987 from 9.7 per cent in the first quarter of 1987 and 11.5 per cent for all of 1986. Retail sales in Canada for the January to June period increased by 8.8 per cent over the corresponding period in 1986.

The rate of inflation continued to hover around the 4 per cent level in Canada. The consumer price index increased by 4.3 per cent during the first half of 1987 compared to an annual rate of 4.1 per cent in 1986, 4.0 per cent in 1985 and 4.4 per cent in 1984.

Interest rates edged downward during the first half of 1987 while the Canadian dollar reversed its long term slide and appreciated sharply against the U.S. dollar. Interest rates on short term Treasury Bills averaged 7.7 per cent during the January-June 1987 period compared to an annual average rate of 9.0 per cent in 1986. The Canadian dollar which traded at an average of 72¢ U.S. in 1986 appreciated to average 75.8¢ U.S. during the first six months of 1987.

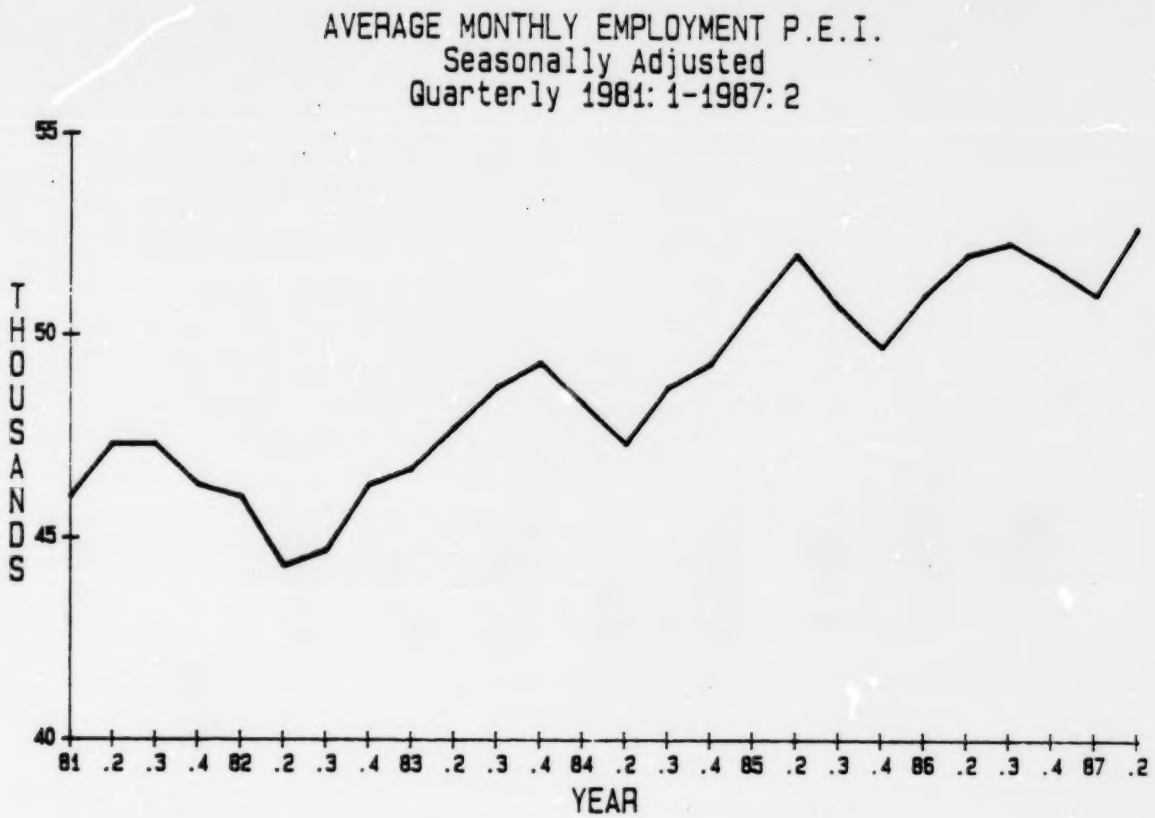
2. Prince Edward Island

The economy of Prince Edward Island also enjoyed a robust period during the first half of 1987. The provincial economy experienced an increase in employment and incomes, a significant improvement in farm cash receipts, better prices for its fish products and an increase in tourism. Construction activity, however, showed signs of slowing down in 1987.

a) Labour Market

Employment on Prince Edward Island averaged 50,100 during the first half of 1987 which compares favourably with the 49,500 averaged during the corresponding period in 1986. The entire increase in employment, however, occurred during the second quarter of 1987, April-June, when employment averaged 53,800 compared to 52,700 in the same period in 1986. Diagram 1 below shows the improved quarterly employment situation for Prince Edward Island in 1987.

Diagram 1


AVERAGE MONTHLY EMPLOYMENT P.E.I.
Seasonally Adjusted
Quarterly 1981: 1-1987: 2
THOUSANDS
55
50
45
40
81 .2 .3 .4 82 .2 .3 .4 83 .2 .3 .4 84 .2 .3 .4 85 .2 .3 .4 86 .2 .3 .4 87 .2
YEAR

Source: Statistics Canada 71-001.

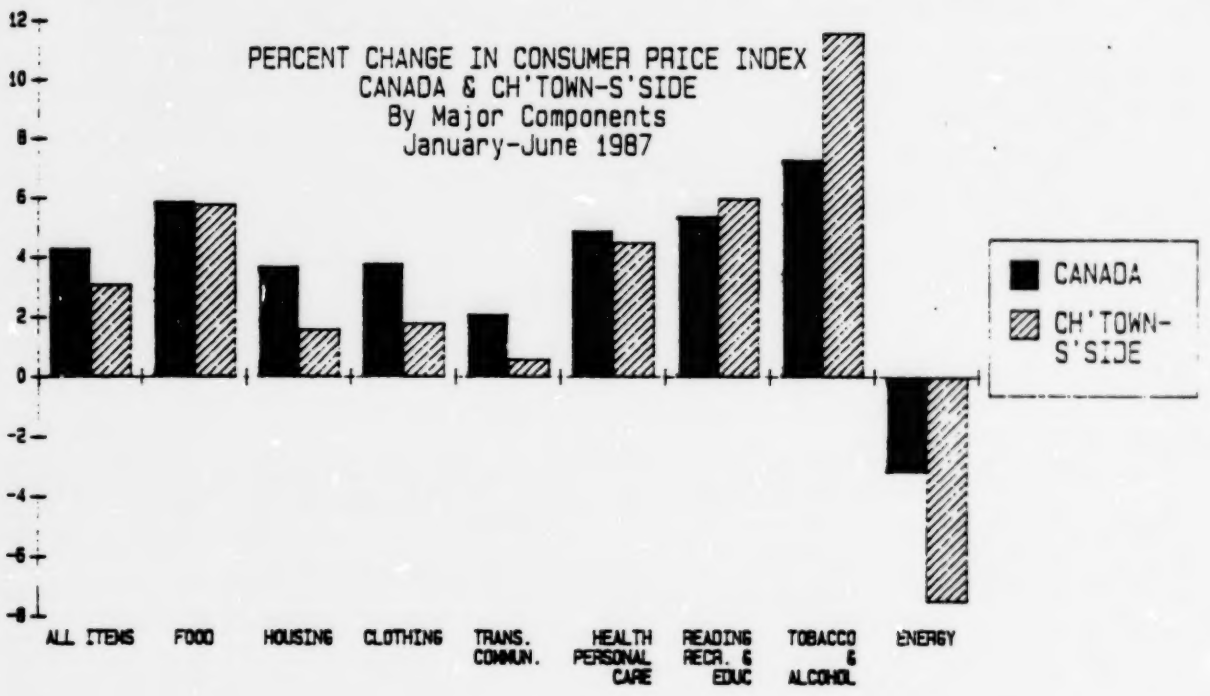
On a seasonally adjusted basis employment in Prince Edward Island increased to an average level of 51,800 during the first half of 1987 from a level of 51,500 in 1986.

The seasonally adjusted unemployment rate averaged 13.5 per cent during the first half of 1987 which was marginally higher than the 13.4 per cent unemployment rate in 1986. This was largely the result of an increase in the labour force participation rate which edged upward in the first half of this year. The seasonally adjusted participation rate was 62.4 per cent in 1987 compared to 62.3 per cent for all of 1986. The average monthly number of unemployment insurance beneficiaries declined but only marginally to an average level of 14,962 during the first half of 1987.

b) **Consumer Prices**

The overall consumer price index for Charlottetown-Summerside increased by 3.1 per cent during the first half of 1987 compared to a national rate of 4.3 per cent. Diagram 2 below shows the percentage increases in the major components of the consumer price indices for Charlottetown-Summerside and Canada during the first six months of 1987.

Diagram 2



Source: Statistics Canada 62-001

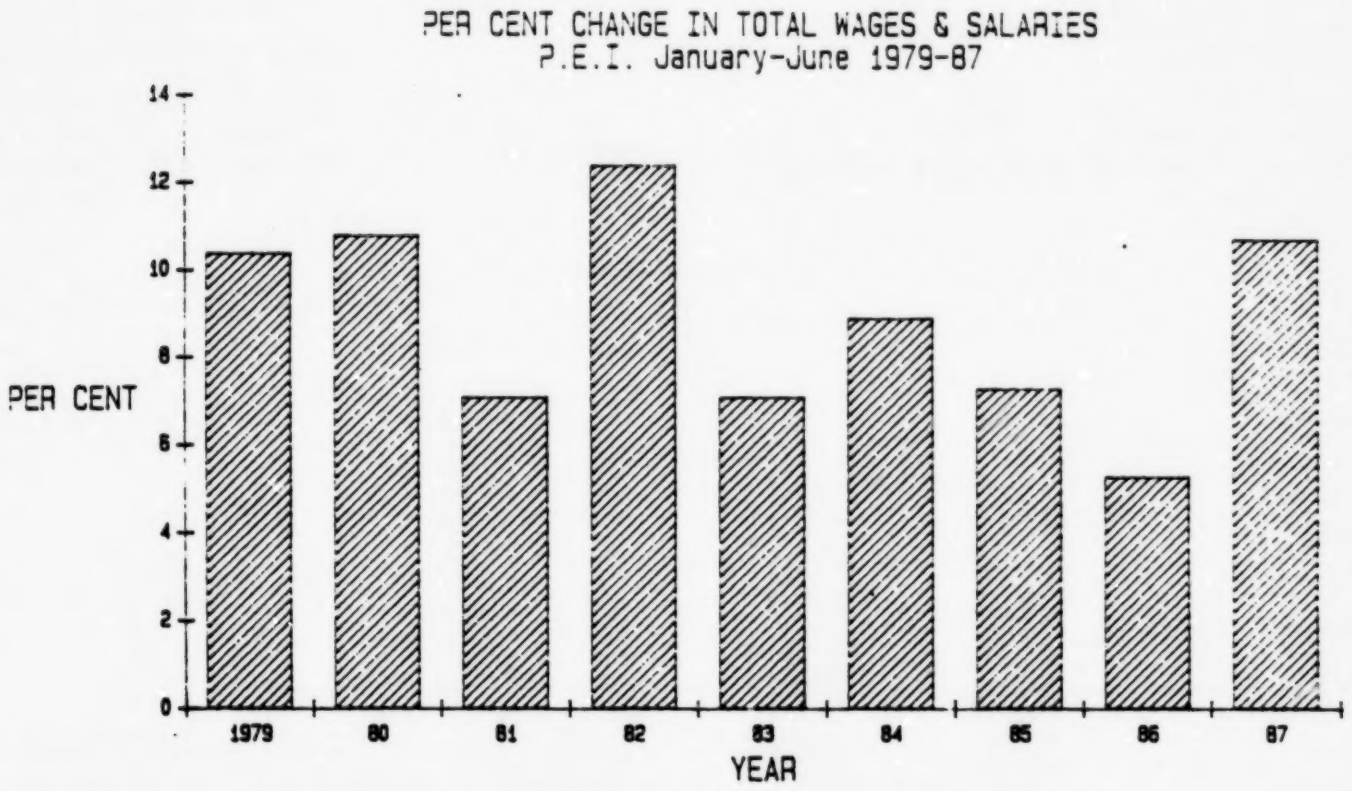
Energy prices were 7.5 per cent lower on Prince Edward Island during the first half of 1987 than they were during the corresponding period in 1986. For Canada, energy prices were 3.2 per cent lower in the first half of 1987. The significantly lower energy prices on Prince Edward Island contributed to slower increases in P.E.I.'s Housing and Transportation indices than in the national averages for these segments. Clothing prices increased on average by only 1.8 per cent in Prince Edward Island compared to 3.8 per cent throughout Canada. On the other hand, Tobacco and Alcohol prices increased much faster on the Island

than nationally during the first six months of 1987. The index for Tobacco and Alcohol increased by 11.6 per cent in Prince Edward Island while nationally it increased by 7.3 per cent.

c) Incomes

Available information on incomes indicate that during the first half of 1987, Islanders enjoyed strong income gains. Diagram 3 below depicts the growth rates in total wages and salaries for Prince Edward Island for the January-June period from 1979 to 1987.

Diagram 3



Source: Statistics Canada 72-005

The total value of wages and salaries paid on Prince Edward Island increased by 10.7 per cent during the first six months of 1987 to total $367 million according to Statistics Canada. This

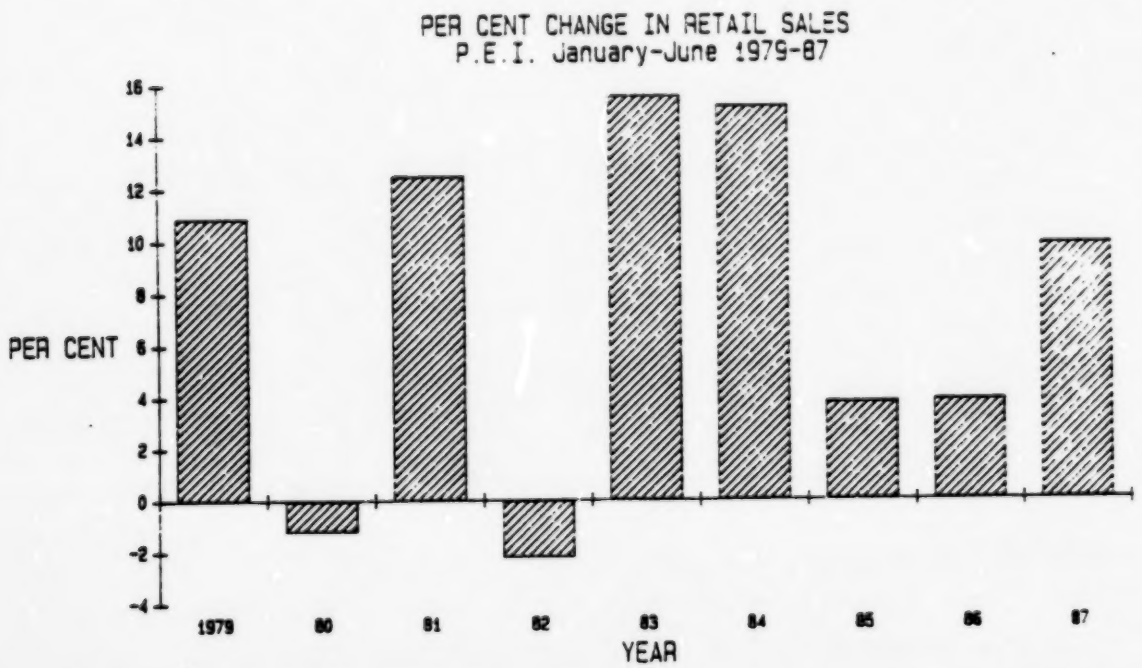
increase in employment income is more than double the 5.3 per cent increase realized during the corresponding period in 1986. The Industrial Aggregate wage and salary per employee was $364 per week during the January-June period in 1987 compared to $347 in 1986. This represents an increase of 4.9 per cent.

Unemployment insurance benefits, which totalled $71.3 million during the first half of 1986, increased to $73.3 million in 1987. While the average weekly benefits increased from $172 in the first half 1986 to $187 in 1987, a decline in the number of beneficiaries and in the average number of weeks collected slowed the growth in overall unemployment insurance benefits to a rate of 2.8 per cent in 1987. In the first half of 1986 total unemployment insurance benefits increased by 12.2 per cent over the corresponding period in 1985.

d) Expenditures

Consumer spending on Prince Edward Island showed signs of renewed vigor during the first half of 1987. Diagram 4 below shows the rate of growth in retail sales for the January-June period from 1979 to 1987.

Diagram 4



Source: Statistics Canada 63-005.

Retail sales totalled $285 million during the January-June period in 1987 which represents an increase of 9.9 per cent over the corresponding period of 1986. Sales of new motor vehicles increased in the first half of 1987 to 3,415 units thereby reversing a two year decline in the volume of motor vehicle sales. The number of new vehicles sold in the first half of 1986 was 3,271 units. The total value of new vehicle sales increased by 15.4 per cent in first half 1987 as the average price paid per vehicle increased by 11.0 per cent.

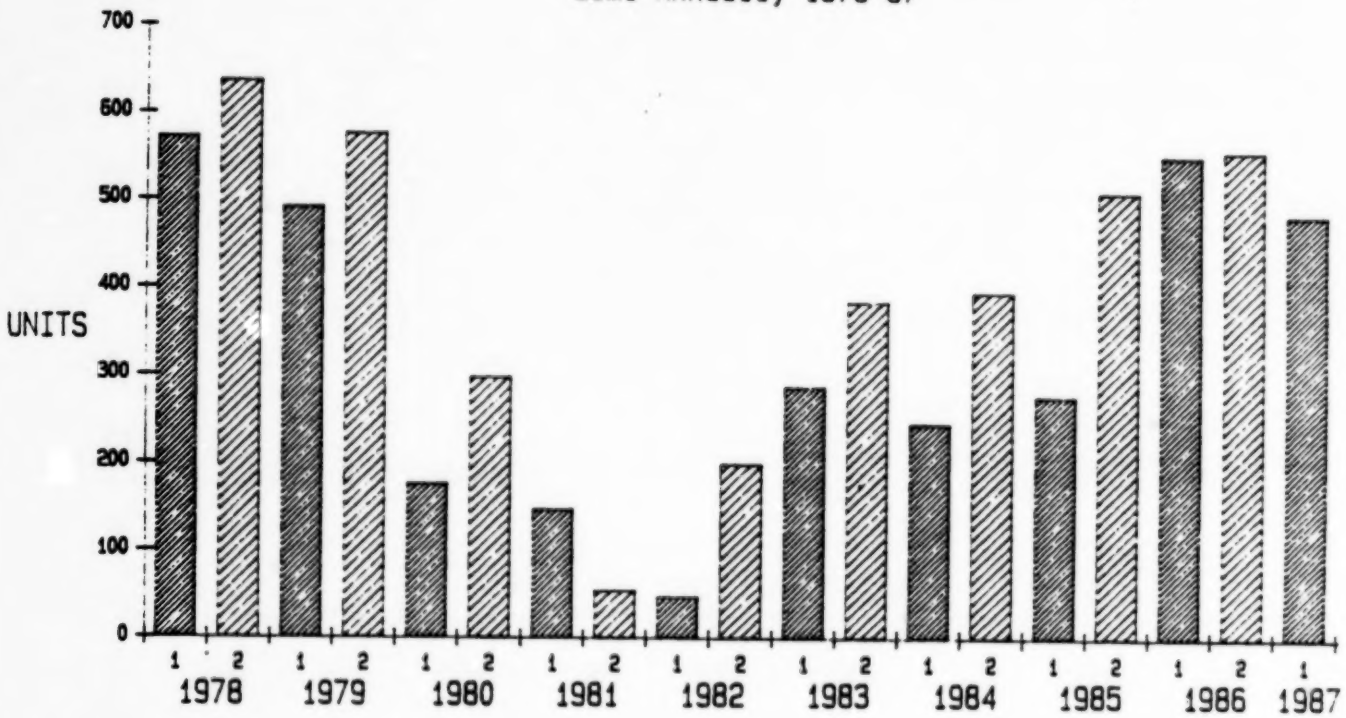
The number of tourist parties increased by 4.2 per cent for the May 15-June 30 period this year. Receipts by restaurants, taverns and caterers increased by 12.6 per cent during the January-May period of 1987 compared to a modest decline in receipts of -1.2 for the corresponding period of 1986.

Exports increased sharply in first half 1987 from $60.1 million in 1986 to $81.3 million this year. Exports to the U.S.A. accounted for the entire increase as shipments south of the border totalled $59.9 million in 1987, $21.1 million higher than in 1986. In the first half of 1987, exports of potato products totalled $38.7 million while exports of fish products totalled $27.6 million.

The Mid Year Outlook for public and private investment expenditures indicates that expenditures on new capital are expected to decline in 1987 from their peak level of 1986. Expenditures on new capital are expected to total $305 million, down from the $313 million spent in 1986. Construction activity is expected to decline by $10 million to a level of $224 million in 1987 while expenditures on machinery and equipment are expected to increase by $2 million to a total of $81 million in 1987. Residential construction activity is expected to account for most of the decline in construction activity while non-residential expenditures remain virtually unchanged. Investment expenditures on residential construction for 1987 are expected to total only $115 million, down from the estimated $122 million spent in 1986. Non-residential construction activity is expected to total $109 million for 1987 compared to $112 million in 1986. Diagram 5 on the following page shows the number of housing starts semi-annually for Prince Edward Island from 1978 to 1987.

Diagram 5

HOUSING STARTS P.E.I.
Semi-Annually 1978-87



Source: Statistics Canada 64-002

The number of housing starts during the first half of 1987 declined to a total of 485 units from 552 units in the corresponding period of 1986. Housing starts in all of 1986 totalled 1,110 units, the highest level since 1978 when 1,210 housing units were started.

e) Agriculture

Farm cash receipts totalled $117.8 million for the January-June 1987 period compared to only $75.9 million for the corresponding period of 1986. This represents an increase of 55.2 per cent. The value of receipts for potatoes in the first half of

1987 exceeded the total annual value of receipts for potatoes in both 1986 and 1985. Farm cash receipts for potatoes totalled $58.6 million in the first six months of 1987 compared to $57.6 million for all of 1986 and $54.3 million for all of 1985. Farm cash receipts for hogs, cattle and dairy products were all up sharply during the first half of 1987. Receipts for hogs increased by 21.6 per cent to a total of $13.1 million, for cattle, by 24.2 per cent to $16.3 million and dairy products, by 8.2 per cent to $16.1 million in the first half of 1987.

Estimates of the 1987 potato acreage put the level at 66,000, an increase of 1,781 acres over 1986's level. Total Canadian acreage is little changed at 278,700 acres while the U.S. acreage for the fall crop is up 4.2 per cent this year to 1,109,900 acres.

f) Fishing

While the quantity of fish landed declined in the first half of 1987 for all major groups except lobster, the average prices received for the catches continued to improve. Lobster landings for the spring season totalled 14,873,000 pounds this year, which was 3.6 per cent higher than in 1986. The total value of the early lobster catch increased to $36.4 million from $35.9 million in 1986. The total value of groundfish and pelagic and estuarial fish landings increased by 17.5 per cent as sharply higher prices more than offset a decline in the volume of landings. In the first half of 1987, the average price for groundfish was nearly a third higher than in the same period of 1986 and landings were 3.7 per cent lower, while the average price for pelagic and estuarial fish was 15 per cent higher and landings, 13.4 per cent lower. Landings of all fish species declined by 8.8 per cent to total 31.8 million pounds. The total value of these landings declined by only 2.1 per cent to total $42.4 million for the first half of 1987.

g) Manufacturing

The value of manufacturing shipments for the first half of 1987 increased by 7.8 per cent to total $162 million from a level of $150 million during the same period in 1986. The value of fish products increased by $4.8 million to total $32.4 million in 1987 while the value of dairy products decreased by $4.3 million to total $29.0 million in 1987. The average monthly level of employment in manufacturing during the first five months of 1987 increased to 2,800 from its corresponding 1986 level of 2,700.

3. Summary and Conclusion

Prince Edward Island enjoyed a good first half in 1987. Incomes on Prince Edward Island improved as weekly wages kept well ahead of the rate of inflation and total wages and salaries more than doubled their first half 1986 rate of increase. Farmers and fishermen received better prices for their goods during the first half of 1987. The number of tourist parties visiting Prince Edward Island also increased during this period. Buoyed by this improved income situation, consumer spending recorded strong gains in the first half of 1987. Retail sales, receipts from restaurants, caterers and taverns, and new motor vehicle sales all increased sharply during the first half of 1987. Construction activity, however, slowed during the first half of 1987 as the number of housing starts declined from their exceptionally high level in 1986. As a result of the slowdown in construction activity, overall economic activity is expected to grow somewhat less than the national average.